

B8595G
2.458
Copy 3



PROCUREMENT AUDIT AND CERTIFICATION

S. C. STATE LIBRARY

NOV 5 1986

STATE DOCUMENTS

S.C. DEPARTMENT OF YOUTH SERVICES

AGENCY

OCTOBER 15, 1985

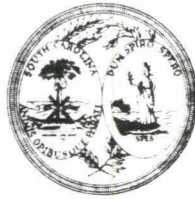
DATE

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
300 GERVAIS STREET
COLUMBIA, SOUTH CAROLINA 29201
(803) 758-3150

RICHARD W. RILEY, CHAIRMAN
GOVERNOR

GRADY L. PATTERSON, JR.
STATE TREASURER

EARLE E. MORRIS, JR.
COMPTROLLER GENERAL



REMBERT C. DENNIS
CHAIRMAN,
SENATE FINANCE COMMITTEE

TOM G. MANGUM
CHAIRMAN,
HOUSE WAYS AND MEANS COMMITTEE

WILLIAM T. PUTMAN
EXECUTIVE DIRECTOR

RICHARD W. KELLY
ASSISTANT DIVISION DIRECTOR

October 15, 1985

Mr. Tony Ellis
Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Tony:

Attached is the final Department of Youth Services audit report and recommendations made by the Office of Audit and Certification. I concur and recommend that the Budget and Control Board grant the Department of Youth Services two (2) years certification as outlined in the audit report.

Sincerely,

Richard W. Kelly, Director
Agency Certification and
Engineering Management

/db

Attachment

cc: Mr. Voight Shealy

DEPARTMENT OF YOUTH SERVICES

AUDIT REPORT

TABLE OF CONTENTS

	<u>PAGE</u>
Transmittal Letter.....	1
Introduction.....	3
Background.....	4
Scope.....	5
Summary of Audit Findings.....	7
Results of Examination.....	9
Certification Recommendations.....	23

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
300 GERVAIS STREET
COLUMBIA, SOUTH CAROLINA 29201
(803) 758-3150

RICHARD W. RILEY, CHAIRMAN
GOVERNOR

GRADY L. PATTERSON, JR.
STATE TREASURER

EARLE E. MORRIS, JR.
COMPTROLLER GENERAL



REMBERT C. DENNIS
CHAIRMAN,
SENATE FINANCE COMMITTEE

TOM G. MANGUM
CHAIRMAN,
HOUSE WAYS AND MEANS COMMITTEE

WILLIAM T. PUTMAN
EXECUTIVE DIRECTOR

RICHARD W. KELLY
ASSISTANT DIVISION DIRECTOR

June 25, 1985

Mr. Richard W. Kelly
Director of Agency Certification
and Engineering Services
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of the Department of Youth Services for the period July 1, 1981 - November 30, 1984. As part of our examination, we made a study and evaluation of the system of internal control over procurement transactions to the extent we considered necessary.

The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and Department of Youth Services procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing a recommendation for certification above the \$2,500 limit.

The administration of the Department of Youth Services is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of

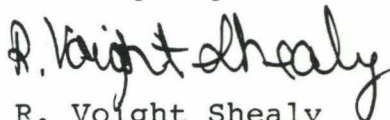
control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions as well as our overall examination of procurement policies and procedures were conducted with due professional care. They would not, however, because of the nature of audit testing, necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions, enumerated in this report which we believe to be subject to correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the Department of Youth Services in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.


R. Voight Shealy
Director of Audit and
Certification

INTRODUCTION

The Audit and Certification Section conducted an examination of the internal procurement operating procedures and policies and related manual of the Department of Youth Services.

Our on-site review was conducted December 17, 1984, through February 8, 1985, and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the agency in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State;
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State;
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process.

BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The Budget and Control Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The materials management office shall review the respective governmental body's internal procurement operations, shall certify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the board those dollar limits for the respective governmental body's procurement not under term contract.

Our audit was performed primarily to determine if certification is warranted for these requested increased limits:

<u>Category</u>	<u>Requested Limit</u>
1. Goods and Services	\$10,000
2. Consultant Services	10,000
3. Construction	30,000
4. Information Technology	10,000

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Department of Youth Services and the related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions up to the requested certification limits.

The Audit and Certification team of the Materials Management Office statistically selected random samples for the period July 1, 1982 - November 30, 1984, of procurement transactions for compliance testing and performed other auditing procedures that we considered necessary in the circumstances to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

- (1) adherence to provisions of the South Carolina Consolidated Procurement Code and accompanying regulations;
- (2) procurement staff and training;
- (3) adequate audit trails and purchase order register;
- (4) evidences of competition;
- (5) small purchase provisions and purchase order confirmations;
- (6) emergency and sole source procurements;
- (7) source selections;
- (8) file documentation of procurements;
- (9) warehousing, inventory and disposition of surplus property;

- (10) economy and efficiency of the procurement process; and
- (11) approval of Minority Business Utilization Plan.

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the Department of Youth Services produced findings and recommendations in the following areas:

	<u>Page</u>
I. <u>COMPLIANCE GENERAL</u>	9
A number of transactions were processed improperly as sole source or emergency procurements.	
II. <u>COMPLIANCE - GOODS AND SERVICES</u>	13
A procurement for anticipated clothing needs was processed without soliciting competition.	
III. <u>COMPLIANCE - CONSULTANTS</u>	14
In our sample of transactions in the consultant area, we found three procurements that were not handled in accordance with the Procurement Code and the ensuing regulations.	
IV. <u>COMPLIANCE - CONSTRUCTION</u>	16
A procurement of \$3,066.70 was artificially divided between two purchase orders so that each one was within the department's certification limit.	
V. <u>COMPLIANCE - INFORMATION TECHNOLOGY</u>	17
Two procurements were not handled properly and two procurements did not have approval from Information Resources Management.	

VI. REVIEW OF THE PROCUREMENT PROCEDURES MANUAL

Page

19

Our review indicated several areas that needed to be added, changed or expanded.

RESULTS OF EXAMINATION

I. COMPLIANCE - GENERAL

During a special review we examined the sole source and emergency procurements for the period July 31, 1981 - March 31, 1983. The results can be found in Appendix A.

Since this was accomplished previously, during this audit we examined the quarterly reports of sole source and emergency procurements and all available supporting documents for the period April 1, 1983 - September 30, 1984, for the purpose of determining the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Division of General Services, as required by Section 11-35-2440 of the Consolidated Procurement Code. We found the majority of these transactions to be proper and accurately reported, but we did encounter the following problems:

SOLE SOURCE PROCUREMENTS

The following two sole source procurements indicated a preference for specific brands. Neither the items purchased nor the brand names were unique so they should not have been procured in this manner.

<u>P.O. Number</u>	<u>Amount</u>	<u>Description</u>
42479	\$ 742.56	Degreaser
43936	\$ 2,519.46	Sewing machines

These items were procured as sole source procurements when other vendors might have furnished them.

<u>P.O. Number</u>	<u>Amount</u>	<u>Description</u>
39466	\$ 1,673.62	Tools
42483	\$ 6,474.00	Pillows, mattresses and beds
42876	\$41,086.80	Pillows, mattresses and beds
43346	\$ 1,150.50	Mattresses
43831	\$ 7,001.00	Curtains
45019	\$ 1,500.00	Pillows
45046	\$ 1,503.00	Mattresses
43696	\$59,580.97	Fireproof chairs, tables, etc.

Sole source procurements must meet the criteria set forth in Section 11-35-1560 of the Consolidated Procurement Code which indicates that there must be only one source for the required supply, service or construction item. The item or service being procured, as well as the specified vendor, must be unique.

In our previous review of sole source and emergency procurement justifications we addressed the fact that several determinations were dated "after the fact". Again, we had a problem with the sole source determinations not being dated. This made it impossible to determine if the following transactions were properly approved before the purchase orders were issued.

<u>P.O. Number</u>	<u>Amount</u>	<u>Description</u>
38695	\$2,408.64	Projectors and adapters
39365	\$3,349.01	Mercury vapor ballast
42999	\$4,000.00	Statistical consultant services

Section 11-35-1560 of the Procurement Code indicates that sole source determinations must be made by an official of the agency that is above the level of the purchasing agent. Since this requisite authority is required, sole source determinations and findings must show approval dates in order to confirm that prior approval was granted.

Finally, purchase order 39466, which was a sole source procurement of tools in the amount of \$1,673.62, was not reported to the Division of General Services. Section 11-35-2440 of the Procurement Code states in part: "Any governmental body...shall submit quarterly a record listing all contracts made under Section 11-35-1560 (Sole Source Procurement) or Section 11-35-1570 (Emergency Procurements) to the chief procurement officers."

EMERGENCY PROCUREMENTS

The determinations and findings for these procurements were not sufficient to justify them as emergencies.

<u>P.O. Number</u>	<u>Amount</u>	<u>Description</u>
38558	\$ 686.60	Repair of windows and doors
44025	\$1,930.14	Rebuild differential
44899	\$4,600.00	Bus chartering services

The justification for each emergency procurement was as follows:

<u>P.O. Number</u>	<u>Justification</u>
38558	Material used in renovation of building. Maintenance given one week for repairs to be completed. Materials consistently priced in market. Emergency mandated direct procurement.
44025	Needed to transport students to Youth Services activities. While I am signing this as an emergency I feel that the situation could have been handled in a different manner. The procurement section could have, at a minimum, secured 3 quotes. This issue has been discussed with

the appropriate personnel. Will not happen again.

44899

(1) Vendor can provide the service for the lowest cost. (2) Vendor is a minority business and this supports our minority business goals. (3) Because of the time frame we are unable to go through the bid process.

Section 19-445.2110, Subsection B, of the Procurement Code regulations states:

An emergency condition is a situation which creates a threat to public health, welfare or safety such as may arise by reason of floods, epidemics, riots, equipment failures, fire loss, or such other reason as may be proclaimed by either the Chief Procurement Officer or the head of a governmental body or a designee of either office. The existence of such conditions must create an immediate and serious need for supplies, services, or construction that cannot be met through normal procurement methods and a lack of which would seriously threaten:

- (1) the functioning of State government;
- (2) the preservation or protection of property; or
- (3) the health and safety of any person.

Purchase order 45062, which was an emergency procurement of drugs for students, was not reported to the Division of General Services as required by Section 11-35-2440 of the Code. This purchase order should be reported to the Division of General Services by amending the next quarterly report for emergency procurement.

Future procurements made under the sole source or emergency procurement methods should be scrutinized to ensure that they are made within the parameters defined in the Procurement Code and the ensuing regulations. These procurements must have documentation to support the determining factors used in the applicable

procurement methodology. We further recommend that the agency make a more concerted effort to insure that all sole source and emergency procurements are reported to the Division of General Services. Otherwise, the annual reports to the General Assembly on sole source and emergency procurement activity will be understated.

AGENCY RESPONSE

Regarding paragraph 3 above, we concur with the auditors that additional bids should have been formally sought. We would like to note that of the 10 P.O.'s mentioned, 7 dealt with fire resistant materials for which we believed at the time of procurement there existed only one responsible vendor. It was certainly not our intention to "indicate a preference for specific brands." Five of the ten P.O.'s listed were to the Department of Corrections, which is not a brand name we prefer.

In paragraph 10 above we concur with the auditors that the three P.O.'s listed do not meet the standards of "emergency" and should have been handled through the normal procurement channels. We have significantly reduced the number of emergency procurements after discussion of the audit.

II. COMPLIANCE - GOODS AND SERVICES

The department has a recurring need for clothes for children that come under their control. To meet these anticipated needs purchase order 45189 was issued to a single vendor for the period July 1, 1984 - June 30, 1985, in the amount of \$1,500.

Competition was not solicited prior to award of this contract. Section 19-445.2100, Subsection B, Item 3, of the regulations, requires that written quotations be solicited from three qualified sources of supply before purchases from \$1,500.00 to \$2,499.99 are made.

In the future, the department should either solicit competition and award a contract for the estimated clothing needs or establish blanket purchase agreements with several statewide vendors who can furnish the clothing requirements. We feel the latter may be preferable in this situation. If the department selects this procurement method, the blanket purchase agreements should be established in accordance with Section 19-445.2100, Subsection C, of the regulations.

AGENCY RESPONSE

Regarding paragraphs 2 through 4 above, we have established blanket agreements with the only two statewide vendors known, Sears and Penny's.

III. COMPLIANCE - CONSULTING AND CONTRACTUAL SERVICES

In our sample of transactions in the consultant area, we found three procurements that were not handled in accordance with the Procurement Code and the ensuing regulations.

The department has two contracts with the University of South Carolina for psychological services for \$19,500 each. Since June, 1982, intergovernmental contracts must be procured in accordance with Article 5 - Source Selection and Contract Formation - of the Code. Thus, these contracts exceeded the

agency certification limit of \$2,500 and consequently, must be ratified by the Materials Management Officer pursuant to Section 19-445.2015, Subsection A, of the regulations.

For future procurements of these services the department must either process the procurement in accordance with the Code or request an exemption from the Division of General Services. On November 5, 1984, the Budget and Control Board delegated to the Division of General Services the authority to exempt contracts between State government agencies under Sections 11-35-4830 and 11-35-4840 for supplies or services, provided a cost justification is submitted to the division in advance.

Additionally, purchase order 42131, for a moving and storage service, was issued to someone other than the lowest bidder without a determination justifying why this was done. Section 19-445.2090, Subsection A, states: "The contract shall be awarded to the lowest responsible and responsive bidder whose bid meets the requirements and criteria set forth in the invitation for bids."

For future procurements, the department must award contracts to the lowest bidder or maintain on file strong justification for the exception to regulation 19-445.2090. The award determination must clearly support the decision.

AGENCY RESPONSE

Regarding paragraph 2 above, there is now a State procedure which allows for the approval of intra-agency contracts of this nature, therefore, the issue cited has been resolved.

Regarding paragraph 4 above, we concur with the auditors that added information should have been recorded to explain our selec-

tion of the second from the least expensive moving company. This will be done in the future. When a vendor other than the least expensive bidder is selected, extensive justification will be provided for audit backup.

IV. COMPLIANCE - CONSTRUCTION

During our review of transactions in the area of construction, we found that a single request was divided so that the department could make the procurement under their certification limit of \$2,500. The two consecutively numbered purchase orders were as follows:

<u>Requisition</u>	<u>Purchase Order</u>	<u>AMOUNT</u>
69743	39419	\$1,549.13
	39420	1,517.57
	Total	<u>\$3,066.70</u>

The requisition, approved on June 9, 1983, called for the procurement of 550 tons of crusher run stone with an estimated price of \$3,850. The agency split the order and issued two consecutive purchase orders on June 29, 1983, with purchase order 39419 being for 245 tons and purchase order 39420 being for 240 tons.

Section 19-445.2100, Subsection A, of the regulations states in part:

Any procurement under this Regulation not exceeding \$2,499.99 may be made by governmental bodies provided, however, that procurement requirements shall not be artificially divided by governmental bodies so as to constitute a small purchase under this

Subsection. Procurements of supplies and services or construction initially estimated to exceed \$2,499.99 shall not be made by the small purchase method, even though resulting awards do not exceed such amounts.

The agency failed to adhere to the above restriction and proceeded with an obvious case of splitting orders. Even though two purchase orders were prepared, they must be considered a single order; thus, this was an unauthorized procurement. Pursuant to Section 19-445.2015, Subsection A, of the regulations, this procurement must be ratified by the Materials Management Officer.

Future procurements above the certification limit of the agency must be handled as defined in the Code and ensuing regulations.

AGENCY RESPONSE

Regarding paragraph 2 above, in the instance cited, the decision to exceed our \$2,500 procurement limit by \$566.70 was made due to the nature of the procurement (delivery of stone) and time constraints - the end of a fiscal year. This was an isolated incident which will not be repeated.

V. COMPLIANCE - INFORMATION TECHNOLOGY

In our review of transactions in the area of information technology, we found two that were not handled in compliance with the Procurement Code. In both cases, competition was not solicited before the procurements were made.

	<u>Purchase Order</u>	<u>AMOUNT</u>	<u>COMMENT</u>
1.	37301	\$2,362.15	Telecommunications cost for nationwide child status
2.	45317	513.98	Software

Item 1 was for telecommunications services from the State Law Enforcement Division, SLED, on child runaways. Since June, 1982, the Procurement Code has required competition before intergovernmental contracts are awarded.

For future procurements of these services, the department has the following options: (1) seek competition before awarding the contract; (2) prepare sole source determination, if appropriate; or (3) request an exemption for this contract from the Division of General Services as indicated in Section III, Compliance-Consulting Services, of this Report.

The sales tax on item 2 caused the procurement to exceed \$500. The department did not consider this cost applicable so quotes were not obtained. However, the Materials Management Officer has ruled that sales tax must be considered in the determination of total cost. Based on this ruling, two telephone quotes should have been solicited, as required by Section 19-445.2100, Subsection B, of the regulations.

Additionally, the following procurements in the area of information technology were not approved by the Division of Information Resource Management of the Budget and Control Board:

<u>P.O. Number</u>	<u>Amount</u>	<u>Description</u>
42999	\$4,000.00	Statistical consultant services
43345	\$4,296.00	Disk drive and printer

Prior to receiving written approval of agency Information Technology Plans from the Division of Information Resources Management, each procurement of technology must be approved by them.

AGENCY RESPONSE

Regarding paragraph 1 above, we concur with the auditors and will avoid similar occurrences in the future. Even though a particular software application may appear highly specialized and only a single vendor qualified, we will nevertheless seek market response before a final decision is made.

Regarding paragraph 5 above, this was an oversight by the Department. We understand that DIRM must approve such procurements.

VI. REVIEW OF THE PROCUREMENT PROCEDURES MANUAL

Our review of the current Internal Operating Procedures Manual revealed that the following areas need to be added, changed or expanded.

- 1) Section G/Page 5 - This section, which describes duties and job functions, should be moved to the internal departmental procedures manual.
- 2) Section G/Pages 5 and 6 - The following policy statements need to be addressed in the procurement manual.
 - A) Unauthorized Procurements: Procedures for ratification and assessment of possible penalties need to be defined.

- B) Term Contract: Use of "state" term contracts as mandatory needs to be stated.
 - C) Professional Development: Management policy supporting procurement personnel in this area needs to be outlined.
 - D) Restrictive Specifications: Reference agency policy to solicit competition with open specifications.
 - E) Sample Submission: When sample submission is required, the procedure to be followed needs to be defined.
 - F) Determination Files: Describe the documents to be stored and the location of the file.
 - G) Retention of Records: Define the agency procurement record retention policy.
 - H) Expenditure of Funds: Reference the application of the Procurement Code to all expenditures of funds regardless of source.
- 3) Section G/Pages 6 and 7 - The following procedures need to be amplified:
- A) Property Control: Add the procedures here or reference their location.
 - B) Surplus Property: Include all the procedures here or reference their location.
 - C) Change Orders: Expand and define the applicable dollar limits, authorization levels, and necessary documentation to process change orders.

- D) Construction Procedures: Define the procedures followed by the Physical Plant or reference their location if elsewhere.
- 4) Item C/Page 8 - Clarify solicitation procedures used to seek competition above \$1,500.
 - 5) Item 8/Page 9 - The appendix should include an exhibit of a current agency blanket agreement.
 - 6) Item 11/Page 10 - The procedure for information technology procurements must include the approval process by Information Resources Management. The flow chart also needs to be expanded to document each step in the procurement process.
 - 7) Item 16/Page 11 - Address the quarterly reporting requirements for trade-in sales.
 - 8) Item 21/Page 13 - Address the quarterly reporting requirements for minority business activity.
 - 9) Item 22/Page 13 - Include in the description of emergency procurements the requirements for competitive solicitations and written determination prior to purchase.
 - 10) Item 3 and 4/Page 17 - All requisitions as noted in these two items are not required to be processed by General Services. Clarification is needed on these procedures.
 - 11) Annex D/Page D-3 - The policy and procedures for establishing multi-term contracts should be combined into one area.

- 12) Annex H Page H-4 - The references to unauthorized procurements and emergency procurements should be deleted as these are addressed elsewhere.

If the requisitioning procedure is altered due to the automation of the purchasing system, the necessary modifications should be made.

AGENCY RESPONSE

Our existing manual will be changed to incorporate the items listed in this section.

CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter corrective action, based on the recommendations in the body of this report, we believe, will in all material respects, place the Department of Youth Services in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

In accordance with Code Section 11-35-1230(1), the Department of Youth Services should take this corrective action prior to September 30, 1985, the end of the next subsequent quarter.

The major areas that require action are sole source and emergency procurements. We must state our concern about these procurement areas. The Office of Audit and Certification will perform a follow-up review before September 30 to determine if the proposed corrective action has been taken by the Department. If, at that time we find that these exception areas have not improved significantly, we do not intend to recommend certification. If, however, corrective action has been taken as recommended in this report, we will recommend that the Department of Youth Services be certified to make direct agency procurements for a period of two years as follows:

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
I. Goods and Services	*\$10,000 per purchase commitment
II. Consultant Services	*\$10,000 per purchase commitment

III. Information Technology
in accordance with the
Information Technology
Certification Criteria
and Constraints and ex-
cluding printing equip-
ment which must be approved
by the Division of Informa-
tion Resource Management

*10,000 per purchase
commitment

*This limit means the total potential purchase commit-
ment to the State whether single year or multi-year
contracts are utilized.

This would result in the department handling ninety-eight
percent (98%) of their procurement transactions in these areas.

Additionally, certification recommendation in the area of
construction is being deferred until completion of statewide
procedures in this procurement area.


Larry G. Sorrell
Audit Manager


R. Voight Shealy, Director
Audit and Certification

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
300 GERRAIS STREET
COLUMBIA, SOUTH CAROLINA 29201
(803) 758-3150



RICHARD W. RILEY, CHAIRMAN
GOVERNOR

GRADY L. PATTERSON, JR.
STATE TREASURER

EARLE E. MORRIS, JR.
COMPTROLLER GENERAL

REMBERT C. DENNIS
CHAIRMAN,
SENATE FINANCE COMMITTEE

TOM G. MANGUM
CHAIRMAN,
HOUSE WAYS AND MEANS COMMITTEE

WILLIAM T. PUTNAM
EXECUTIVE DIRECTOR

TONY ELLIS

June 24, 1983

Mr. Michael G. Lefever
Deputy Commissioner
S. C. Department of Youth Services
SCN Center, 1122 Lady Street, Suite 500
Columbia, South Carolina 29201

SUBJECT: Review of Sole Source and Emergency Procurement
Justifications and Trade-in Sales Reports

Dear Mr. Lefever:

On April 11, 1983, we examined your agency's quarterly reports of sole source and emergency procurements and trade-in sales and all available supporting documents for the period July 30, 1981 - March 31, 1983. This review was conducted for the purpose of determining the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Division of General Services in accordance with Section 11-35 2440 of the Consolidated Procurement Code. We found the majority of these transactions to be proper and accurately reported, but we did encounter the following problems:

I. SOLE SOURCE PROCUREMENTS

<u>P.O. #</u>	<u>AMOUNT</u>	<u>EXCEPTION</u>
32417	\$ 1,700.00	This procurement for combine services had no authorized justification in file, only a note on the purchase order stating "sole source".
31984	\$ 2,186.83	This was an emergency tractor repair reported as sole source with no authorized justification in file.
34341	\$ 1,060.92	This procurement for services to rebuild a loader was supported by weak justification stating only "essential for farm use, used for cleaning cow lot." The justification

Mr. Michael G. Lefever
June 24, 1983
Page 2

should have stated why the vendor was the only one who could perform the required service.

35113	\$ 1,098.00	This procurement was for "household items" purchased from Sears. A non-convincing justification was given for this purchase as a sole source.
34174	(up to \$6,000.00)	This purchase order, although in the name of a paint company, is for maintenance services for the Statewide Management Information Systems. These data processing services should probably have been procured by State Procurements under a new contract for FY83-84 either by sealed bid or proposal.
35308	\$ 634.14	This procurement for parts for a Toro lawn mower was justified as the only distributor in area and only one who can supply needed parts." The firm was in Charlotte, N.C. However, since that time your agency has found the contrary to the above justification to be true and is now buying parts from a dealer in Columbia. This justification was approved after the issuance of the purchase order.
34064	\$ 525.00	The justification for this procurement was dated and approved over 30 days after the issuance of the purchase order.
33161	\$10,000.00	This justification for Training Department counsellors was also approved "after the fact" by some 18 days.
38099	\$ 9,000.00	This procurement for a media campaign contract presented an unacceptable justification for a sole source stating that the vendor, SCETV: <ul style="list-style-type: none">(1) is a state agency and it is most cost effective to use ETV.(2) is experienced in the area of media production.

Although the above may be true statements, they are not sufficient justification for a sole source alone. This transaction should have been sent through State Procurements

Mr. Michael G. Lefever
June 24, 1983
Page 3

for competitive bids or proposals and ETV included as a suggested vendor.

II. EMERGENCY PROCUREMENTS

<u>P.O.#</u>	<u>AMOUNT</u>	<u>EXCEPTION</u>
37215	\$ 629.00	This procurement for repairs to a boiler and pump at the campus laundry gave a weak justification stating only "need to wash clothes". The justification should have clearly stated the circumstances.
33990	\$ 162.82	This is a small purchase and should not have been reported.
34927	\$ 852.14	This procurement was for various repair items. A poor justification was given stating only "To repair rental property". Competitive quotes should have been obtained on these items as they are stock items.
34959	\$ 2,486.85	These procurements for air condition services are covered under an agency term contract and should not have been reported as an emergency.
35125	2,014.22	

We noted a number of sole source procurements for services of psychologists justified by statements such as "due to lack of qualified personnel in the different communities". Although we found no fault with the justifications examined, we recommend that you periodically test the market for these services as they are not exempt from the Code.

Regulation 19-445.2105 states in part:

"Sole source procurement is not permissible unless there is only a single supplier.

...In cases of reasonable doubt, competition should be solicited. Any request by a governmental body that a procurement be restricted to one potential contractor shall be accompanied by an explanation as to why no other

Mr. Michael G. Lefever
June 24, 1983
Page 4

will be suitable or acceptable to meet the need."

This has been interpreted by the Materials Management Office as follows:

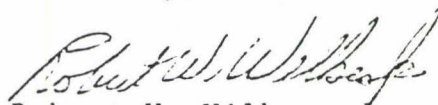
"The terminology 'only one source' is intended to mean one manufacturer or unique service provider distributing through one distributor channel. If a firm specification for a product or service is requested due to a unique circumstance or need only satisfied by the procurement of that specific product/service and there is more than one source of distribution, the procurement is not sole source. Bids should be forwarded to all known distributors to achieve the lowest possible price for the particular service or product."

We request that your procurement section review these exceptions and make a more concerted effort to test the market when there is any question concerning the availability of competition. If none can be found, then the sole source justification should clearly state the circumstances.

Further, all justifications for sole source and emergency procurements should be completed in a timely manner and not "after the fact".

The Audit and Certification staff is available at your convenience to discuss the above matters or any other procurement related topic if there are any questions.

Sincerely,



Robert W. Wilkes, Jr., CPA
Director, Audit and Certification

RWWJr:rms

CC: Peggy Smith, Purchasing Manager, Finance Division

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
300 GERVAIS STREET
COLUMBIA, SOUTH CAROLINA 29201
(803) 758-3150

RICHARD W. RILEY, CHAIRMAN
GOVERNOR

GRADY L. PATTERSON, JR.
STATE TREASURER

EARLE E. MORRIS, JR.
COMPTROLLER GENERAL



REMBERT C. DENNIS
CHAIRMAN,
SENATE FINANCE COMMITTEE

TOM G. MANGUM
CHAIRMAN,
HOUSE WAYS AND MEANS COMMITTEE

WILLIAM T. PUTMAN
EXECUTIVE DIRECTOR

RICHARD W. KELLY
ASSISTANT DIVISION DIRECTOR

October 15, 1985

Mr. Richard W. Kelly
Director of Agency Certification
and Engineering Management
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Rick:

We have returned to the Department of Youth Services to determine the progress made toward implementing the recommendations in our audit report covering the period July 1, 1981, through November 30, 1984. During this visit we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

The Office of Audit and Certification observed that the Department has corrected the problem areas found in the audit, thus strengthening the internal controls over the procurement system. We feel that the system's internal controls are adequate to insure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

We therefore recommend, that the certification limits as outlined in the audit report be granted for a period of two (2) years.

Sincerely,

R. Voight Shealy, Director
Audit and Certification

k1

0 01 01 0046097 0

DATE DUE

MAR. 12 1987

HIGH SMITH REORDER #45-230